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Report Highlights:

Post forecasts corn production in 2008/09 at 49.5 million tons due to dry conditions in key growing regions severely impacting yields. Corn production for 2009/10 is expected to rebound to 50.1 million tons as yield recovery compensates for loss of acreage to soybeans. Post forecasts 2008/2009 wheat imports at 6 million tons, a reduction from the prior year due to increased domestic supply. Brazil is expected to import non-Mercosul wheat again this year, with the possibility of some imports of U.S. wheat. In spite of more wheat acreage planted, overall 2009/10 wheat production is expected to decrease slightly as yields return to the mean. Rice production is expected to be up slightly as acreage should be maintained and yields continue to rise.

Executive Summary:

Post forecasts corn production in 2008/09 at 49.5 million tons due to dry conditions in key growing regions severely impacting yield. Corn production for 2009/10 is expected to rebound to 50.1 million tons as yield recovery compensates for loss of acreage to soy.

Post forecasts 2008/09 wheat imports at 6 million tons, a reduction from the prior year due to increased domestic supply. Marketing year 2009/10 wheat production is forecast at 5.7 million tons, slightly lower than the previous year as area planted increases but yields return to more normal levels.

Post forecasts rice production for 2008/09 to 8.3 million tons based on reports of excellent yields in Rio Grande do Sul, the largest rice growing state. In 2009/10, rice production is expected to be up slightly as acreage should remain the same and yields continue to rise.

Commodities:

Select

Stocks:**Author Defined:****Economic Situation**

In 2008, Brazil experienced 5.1 percent GDP growth, down from 5.4 percent in 2007. Although, Brazil's GDP increased in 2008 by 5.1 percent, the rate of growth declined by 3.6 percent in the last quarter of the year, reflecting the impact of the world financial crisis, which affected mostly the industrial sector. The agricultural growth rate was 5.8 percent with wheat, corn, rice and soy the main drivers. However, growth in the agricultural sector also slowed down in the fourth quarter declining 0.5 percent.

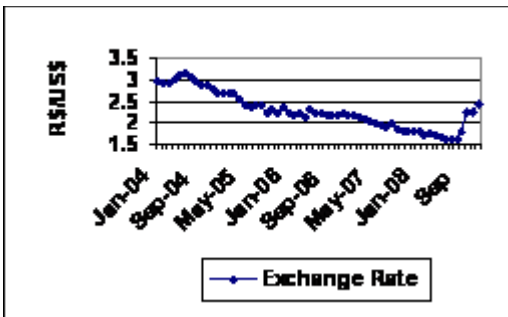
Current GDP estimates for 2009 vary between -0.5 to 2 percent. In response to the slow down of the economy, Brazil's central bank reduced its benchmark lending rate from 13.75 to 12.75 percent per annum earlier this year. After a spat of negative economic news the rate was dropped again to 11.25 percent on March 11. If the economy continues to have problems, there will be pressure for additional rate cuts. Inflation increased in 2008 to 5.9 percent from 4.5 percent in 2007. Estimates for 2009 are for an inflation rate of 4.5 percent.

The global financial crisis has exacerbated an already difficult debt situation for farmers. Even before the global crisis, Brazilian farmers had accumulated an estimated total debt of R\$184 billion (US\$80 billion) following a string of poor crops and unfavorable exchange rates. About 70 percent of this debt was renegotiated in late 2008 by the government as a means to facilitate access to credit. In spite of this effort, the debt load made it difficult for many farmers to secure additional credit. Therefore, for the upcoming crop, the government is expected to increase its share of the operational funding to agriculture from 60 to 70 percent of an estimated R\$150 billion needed. According to the Ministry of Agriculture, Brazil plans to finance between R\$90 billion and 100 billion (US\$38 to 42 billion) in the 2009/10 season. The new agricultural plan will be announced in May.

The credit crunch has impacted some regions and crops more severely than others. Mato Grosso is seen as more vulnerable than the grain-producing states in the South due to its higher level of rural debt and dependence on the barter system for financing. In turn, corn is affected more than soy because corn has less financial liquidity.

The global financial crisis may be an impetus to make changes in Brazil's outdated credit sector. Sources note that the government is studying a new credit model for the agricultural sector which will include a program of minimum prices, crop insurance and financing. In particular, the idea that the government could guarantee a minimum level of income to producers is being floated. Proponents note that a minimal level of income would break the cycle of endlessly rolling over debt on subsidized credit. The Bank of Brazil is taking the lead on this issue.

Even though the financial crisis has tightened credit and profit margins, it has brought about a devaluation of the Real, which has made Brazilian exports more competitive in the world market. The Real lost about 30 percent of its value against the Dollar in 2008.



Commodities:

Corn

Production:

Post forecasts 2008/09 total corn production of 49.5 million tons including a second crop (safrinha) production estimate of 16.5 million tons, down from last year's 18.7 million tons. Safrinha planted area is projected to be down 4 percent from last season and yields are forecast to drop 6 percent due to lower input use.

Planting intentions for winter crop corn have been in flux. Months ago, analysts forecasted a 30-40 percent drop in planting due to the financial crisis and the high cost of inputs. More recently, Parana producers were expected to plant more winter corn to compensate for the losses of the drought-affected main crop corn. Now, improved local prices for wheat coupled with a pullback in local prices for corn have resulted in two big grain cooperatives in Parana state reporting that producers are planting wheat instead of safrinha corn.

In the Center-West region, the area most affected by the credit crunch due to its dependence on the barter system for financing, producers are expected to apply significantly less fertilizer. As a result, yields in Mato Grosso, the top safrinha corn-producing state, could fall by as much as 11 percent.

About 20 percent of the expected area has been planted already, well ahead of last year when at this time only 13 percent had been planted. Soil moisture conditions in Mato Grosso and Parana are reported to be good. Mato Grosso has planted around 20 percent of expected safrinha area and production is seen at around 6.2 million tons, compared to 7 million tons last season. In Parana, the country's second largest winter corn producer planting is around 40 percent complete with weather conditions mostly favorable. The safrinha corn crop is expected to remain relatively stable at 5.6 million tons.

Winter crop yields fluctuate greatly as precipitation is unpredictable during the planting season. Although, there is some concern regarding a new episode of La Nina and its affect on the crop, experts predict that La Nina will have a weak intensity and a short duration.

For the 2009/10 marketing year (March 2009/February 2010) post forecasts corn acreage to marginally shift by 2 percent to 14 million hectares as producers switch acreage from corn to soy. Producers opt for soy based on soy's lower input costs and greater liquidity in a tight credit environment. Yields, however, are expected to recover.

First crop 2008/09 corn is already almost 30 percent harvested, a faster pace than for last year's crop that was delayed by dry weather at planting time. Dry conditions in key growing regions severely impacted yields of first crop corn reducing its 2008/09 first crop corn production to 33 million tons well below 2007/08's production of almost 40 million tons.

Biotechnology

Biotech corn seeds accounted for 6.5 percent of the first corn crop and 19 percent of the safrinha crop. These indices are quite high considering that Brazil gave final approval to Bayer CropScience's Liberty Link and Monsanto's MON 810 only last year and at that time the supply of seeds was low. In the coming year, when there will be sufficient seed produced for broad commercialization, the percentage could increase dramatically. However, there remain concerns about adoption. The corn industry which processes about 10 percent of national production and is a R\$1.5 billion per year market has expressed concern about the use of biotech corn and the possible loss of business from European and Asian businesses. Industry has requested segregation of corn in cooperative warehouses in Parana to avoid mixing the biotech corn with conventional corn.

In spite of these concerns, biotechnology has the potential to significantly raise Brazilian corn yields. US corn yields are dramatically higher (about 2.5 times) than Brazil's less than 4 kg/ha corn yields. A study by Abrasem, the Brazilian Seed Association, and Celeres, an agricultural consulting firm, addressed the potential impact of biotech adoption and concluded that the following potential greater income gains could be realized during the period of 2008/2009 to 2017/2018 if biotech corn was adopted:

Income Gains Due to Biotech Corn Adoption for the Period 2008/2009 to 2017/2018	
Reductions in Cost	\$ 3.8 billion
Production Gains	\$38.6 billion
Pesticides	\$ 0.9 billion
Seeds	\$ 3.5 billion
TOTAL	\$46.8 billion

Source: Abrasem and Celeres

News reports of the availability of drought-resistant biotech corn for commercial sales in the United States in 2010 have raised speculation that, though there is no specific date, Brazil may begin the protocol for analysis of this technology the same year it's available in the U.S. market. This year's drought in Parana and western Rio Grande do Sul has intensified interest in this product as tests have demonstrated that this new technology has yields 6-10 percent greater than conventional technology in dry conditions. However, even with the streamlined approval process, it will still be several years before the product is available for sale in Brazil.

Corn Prices

Prices in R\$ per 60 kg
(discounted by the CDI/CETIP
tax)

Year	2007	2008	% Change
Jan	25.02	30.19	21%
Feb	22.02	27.79	26%
Mar	20.20	27.19	35%
Apr	19.20	26.66	39%
May	18.93	27.43	45%
Jun	19.58	26.88	37%
Jul	18.97	27.76	46%
Aug	22.13	24.56	11%
Sep	26.95	23.77	-12%
Oct	27.36	22.37	-18%
Nov	31.72	20.55	-35%

Dec	33.80	20.75	-39%
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Source: CEPEA

2008/2009 Basic Minimum Prices for Corn

Region	Unit	Price (R\$/unit)
South, Southeast, Center- West(except Mato Grosso	60 kg	16.50
Mato Grosso, Rondonia	60 kg	13.20
North (except Rondonia) and Northeast	60 kg	19.00

Source: MAPA/SPA/DEAGRO

Consumption:

The Brazilian meat sector accounts for about 80 percent of the national corn consumption. Corn comprises approximately 60 percent of rations. Sindiracoes, the Brazilian Feed Association, estimates total Brazilian feed production in 2008 at 59 million tons of which poultry production used about 33 million tons. Sindiracoes forecasts 2009 feed production at 60.8 million tons. Poultry production is expected to increase slightly, although at a slower rate than had been previously forecast, reflecting slower growth in the Brazilian economy combined with a higher rate of unemployment. The current retail price of broilers in the local market is competitive with pork and beef and will somewhat offset competition from these other animal proteins. Post forecasts a slight increase in domestic pork demand because pork prices are currently competitive with beef prices. (Refer to Poultry and Products Report BR9602 and Livestock and Products Report BR9603 for further information regarding feed demand for poultry and pork.)

For 2009/10 marketing year, post forecasts a modest 1-2 percent increase in consumption. If the financial crisis continues into the next year, there will be less money for investments and little expansion.

Trade:

Imports:

Post forecasts imports in to drop to 550,000 tons in 2008/09 as ample domestic supply and a weak Brazilian currency make imports less attractive. Paraguay supplies over 95 percent of imports.

Exports:

In the 2007/08 local marketing year Brazil exported 7.7 million tons of corn down from the prior year's record 10.8 million tons. This reduction was mainly due a rebound in grain production in the European Union which had accounted for nearly 70 percent of 2006/07 MY exports.

Export Trade Matrix			
Country			
Brazil			
Commodity			
CORN			
Time Period	Mar 2007-Feb 2008	Mar 2008- Feb 2009	
Exports to:			
EU	6,985	3,002	
Iran	2,316	669	
Korea	660	615	
Malaysia	0	587	
Saudi Arabia	95	512	
Colombia	0	486	
Taiwan	0	383	
Other	757	1,480	
Total	10,813	7,734	

('000 mt)

Post anticipates exports of 9.5 million tons in marketing year 2008/09 and 8.5 million tons in 2009/10. Brazil's weaker currency is expected to make Brazilian corn more competitive, assisted by decreased supply from Argentina. The drought decimating Argentina's corn crop may result in Brazil gaining a larger share of the export market. Although Brazil's forecast 49.5 million ton crop will be down from a record 58 million tons last year, it is still one of the country's largest ever, opening opportunities to gain global market share. In January and February of this year, Brazil shipped corn to several traditionally Argentine markets such as Malaysia. However, sources note that the preference for Brazilian corn was based on a price difference that has since diminished. Another factor improving

Brazil's export competitiveness is Argentina's uncertain government policy. Brazil is the first option if anything interrupts corn exports in Argentina as the shipping route is similar.

Stocks:

In 2008, the Brazilian government auctioned off 2.2 million tons of corn. There was approximately 1 million tons of corn in public storage.

Production, Supply and Demand Data Statistics:

Corn Brazil	2007 2007/2008			2008 2008/2009			2009 2009/2010
	Market Year Begin: Mar 2008			Market Year Begin: Mar 2009			Market Year Begin: Mar 2010
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed
			Data			Data	Jan Data
Area Harvested	14,700	14,700	14,700	14,200	14,200	14,200	13,920
Beginning Stocks	3,592	3,592	3,592	12,792	12,528	12,559	9,109
Production	58,600	58,586	58,585	49,500	49,500	49,500	50,100
MY Imports	600	550	616	500	615	550	550
TY Imports	950	950	767	500	570	580	550
TY Imp. from U.S.	0	0	0	0	0	0	0
Total Supply	62,792	62,728	62,793	62,792	62,643	62,609	59,759
MY Exports	7,500	7,700	7,734	9,500	9,500	9,500	8,500
TY Exports	7,883	7,883	7,883	10,000	10,000	10,000	8,500
Feed Consumption	36,000	36,000	36,000	37,000	37,000	37,000	37,300
FSI Consumption	6,500	6,500	6,500	7,500	7,000	7,000	7,000
Total Consumption	42,500	42,500	42,500	44,500	44,000	44,000	44,300
Ending Stocks	12,792	12,528	12,559	8,792	9,143	9,109	6,959
Total Distribution	62,792	62,728	62,793	62,792	62,643	62,609	59,759
Yield	4.	4.	3.9854	3.	3.	3.4859	3.5991

(1000HA) (1000MT)

Commodities:

Wheat

Production:

Marketing year 2009/10 wheat production is forecast at 5.7 million tons, slightly lower than the previous year as area planted is projected to increase but yields are expected to return to more normal levels. Wheat production for MY 2008/09 rebounded from the previous year, climbing to 6 million tons, 60 percent of domestic demand, due to an increase in area planted and higher yields resulting from favorable weather. Producers are waiting for the federal government's announcement of a higher minimum price and support

for the commercialization of wheat (options contracts, lines of credit and agricultural insurance) before making planting commitments. Although producers usually begin planting wheat in March in Parana, the state which produces more than half of Brazil's wheat, sources indicate that planting is progressing at a slower pace than normal. Recently two big grain cooperatives in Parana state reported that producers are shifting area from safrinha corn to wheat. One cooperative cited improved local prices as well as reduced Argentine wheat supplies as stimulating interest in increasing acreage. That cooperative also notes that Parana growers see an opportunity to increase market share.

Wheat can be a risky winter crop in the South because of frost. Therefore, post has estimated yields below last year's record yields which were partly due to perfect weather.

Last year in April the government launched the National Wheat Plan, which provided for increased financing and credit specifically turned to the sector and, in keeping with the rising price of the product in the global market, encouraged an expansion of planted area. The marketing year 2008/09 harvest of 5.8 million tons of wheat exceeded the government's production goal of 4.75 million tons.

This year producers are lobbying for a minimum price above the cost of production, lines of credit, and agricultural insurance. While producers are pressing for a minimum price of R\$600 per ton, sources state that the government is looking at a price of R\$540. Producers also want to maintain interest rates at 6.75 percent per year and increased insurance coverage. The low interest rate and insurance coverage are subsidized by the government.

Wheat Prices

Prices in R\$ per mt (Curitiba
c.i.f.)

Year	2007	2008	% Change
Jan	500.00	673.50	35%
Feb	491.36	693.16	41%
Mar	488.50	765.00	57%
Apr	500.25	785.71	57%
May	513.81	780.00	52%
Jun	513.50	752.38	47%
Jul	532.73	707.39	33%
Aug	590.43	555.71	-6%
Sep	660.00	519.77	-21%
Oct	620.43	520.00	-16%
Nov	567.22	491.00	-13%
Dec	616.67	473.50	-23%

Source: Safras e Mercado

Consumption:

Brazilian wheat consumption continues to be relatively stable and inelastic.

Trade:

Argentina normally provides over 90 percent of Brazil's wheat import needs. This year Argentina does not have sufficient quantities of wheat to supply Brazil which will require Brazilian wheat millers to look outside of Mercosul. The United States, Canada and Russia have the potential to fill this demand. (For more information, please refer to Opportunities for U.S. Wheat in Brazil, GAIN BR 9601.)

In the next few months, the government will have to decide if it will approve the Brazilian Wheat Millers' Association's (Abitrigo) request for a temporary elimination of the 10 percent tariff on wheat imports outside of Mercosul.

Some sources have suggested there is potential for Russia to supply up to half of Brazil's non-Mercosul wheat needs. After phytosanitary meetings in February, Brazil's agricultural ministry cleared Russian wheat for entry into Brazil and now Russia is starting to ship. Trade sources report that a trading company has purchased 25,000 tons of Russian hard wheat for delivery to the Northeast in May. The wheat was reportedly priced at a \$60 per ton discount on a cost-and-freight basis to U.S. hard wheat. Freight costs were reported at \$24 a ton, about the same as shipping from the United States or Canada. However, there are still substantial phytosanitary risks as Russian wheat has been known in the past to contain some fungicide that is prohibited in Brazil. If a shipment tests positive for the fungicide, the cargo will sit in port and accrue significant demurrage costs.

Even if Russia were to supply part of Brazil's non-Mercosul wheat needs, there are still opportunities for North American suppliers. U.S. Hard Red Winter wheat should be competitive in Northeastern Brazil from May to August before the domestic harvest. Canada also is well-positioned to export with a large crop of good quality. For 2009/10, post forecasts imports to be stable at 6 million tons.

Stocks:

In 2008, the Brazilian government auctioned off more than 1 million tons of wheat to facilitate sales of soft wheat and there were approximately 254,289 tons of wheat in public storage.

Policy:

Production, Supply and Demand Data Statistics:

Wheat Brazil	2007 2007/2008			2008 2008/2009			2009 2009/2010	
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009	
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed	Jan
								Data
Area Harvested	1,819	1,819	1,819	2,400	2,200	2,200		2,400

Beginning Stocks	981	1,160	1,160	447	660	660	1,160
Production	3,825	3,825	3,825	5,800	4,600	5,800	5,700
MY Imports	6,711	6,750	6,750	6,000	7,000	6,000	6,000
TY Imports	7,122	7,077	7,077	6,000	7,000	6,000	6,000
TY Imp. from U.S.	855	515	515	0	0	906	0
Total Supply	11,517	11,735	11,735	12,247	12,260	12,460	12,860
MY Exports	770	775	775	800	600	600	600
TY Exports	767	766	766	800	600	600	600
Feed Consumption	100	100	100	400	100	200	200
FSI Consumption	10,200	10,200	10,200	10,350	10,300	10,500	10,500
Total Consumption	10,300	10,300	10,300	10,750	10,400	10,700	10,700
Ending Stocks	447	660	660	697	1,260	1,160	1,560
Total Distribution	11,517	11,735	11,735	12,247	12,260	12,460	12,860
Yield	2.		2.1028	2.		2.6364	2.375

(1000 HA) (1000 MT)

Commodities:

Rice, Milled

Production:

Brazil's 2008/09 rice harvest began recently and approximately one-third of the crop is already harvested. In spite of droughts and the high cost of inputs, the 2008/09 rice production forecast is 8.3 million tons based on average weather. The Brazilian government forecast which assumes perfect weather, is 8.5 million tons. In Rio Grande do Sul, where over 60 percent of the rice is grown, it projects yields over 7 kg/hectare. Farmers attribute much of yield growth to Rio Grande do Sul Institute of Rice's (IRGA) activities which encourage adoption of improved technology by rice farmers in Brazil and the high rate of adoption of the Clearfield system which controls weeds, particularly red rice.

	2003	2004	2005	2006	2007	2008*
Yield (mt/ha)	3.25	3.42	3.54	3.64	4.12	4.14

Source: Post estimates

Post anticipates 2009/10 planted area to remain flat at 2.9 million hectares. Last year's high prices for rice resulted in a recovery of area previously taken out of production. Given that rice is irrigated in Rio Grande do Sul, water continues to be a limiting factor in the majority of areas within the state. Sources note that while there is a proposal to construct three new dams in the south of Rio Grande do Sul that could potentially double the

hectares planted from 50,000 to 100,000, construction has been stymied by environmental concerns.

In the Center-West, rice is grown in very large, newly cleared fields as a way to prepare the soil bed for soybeans and cotton. There was a 6 percent expansion in area last year due to high international prices at the time of planting. However, with the credit crunch there is little room for further expansion.

Yields in 2009/2010 are expected to increase slightly as the state of Santa Catarina recovers from last year's floods and yields return to normal.

On February 11, 2009, the Federal Register of Brazil announced the GOB's approval of ten requests for field tests of Bayer's LL62 biotech rice. This is still an early stage in the commercialization process.

Cost of Production

Cost of Production of 50 kilos of Rice	
Month	Price
Nov 07	R\$26.28
Feb 08	R\$29.64
May 08	R\$32.06
Nov 08	R\$33.07

Source: IRGA

Selected 2008/2009 Minimum Prices for Rice

Type	Region	Unit	Price (R\$/unit)
long fine paddy, type 1	South (except Parana)	50 kg	25.80
long fine paddy, type 1	Southeast, Northeast and Center-West (except Mato Grosso) and Parana	60 kg	30.96
long fine paddy, type 1	North and Mato Grosso	60 kg	25.50
long paddy, type 2	South (except Parana)	50 kg	15.74

long paddy, type 2	Southeast, Northeast and Center-West (except Mato Grosso) and Parana	60 kg	18.88
long paddy, type 2	North and Mato Grosso	60 kg	16.12

Source: MAPA/SPA/DEAGRO

Consumption:

While overall rice consumption is flat, per capita consumption is down. In the coming year, the economic crisis may increase per capita consumption slightly as people return to more staple foods.

Trade:

Imports:

Uruguay and Argentina are Brazil's suppliers of choice due to proximity and a zero Mercosul tariff. Uruguay usually sends about 40 percent of its harvest to Brazil. However, in 2007/08 with the expensive dollar, the two countries were not competitive. With prices low in Brazil, rice moved to other destinations such as the EU.

In 2008/09, post expects Uruguay and Argentina to increase exports into the Brazilian market as they once again focus on Brazil since the third markets where Uruguay and Argentina shipped last year are expected to return to their traditional suppliers. However, these imports will be tempered by Brazil's increased domestic supply due to its projected excellent harvest.

Exports:

In 2008/09, exports are expected to decline as the world rice market has changed markedly since last season. Last year, with high prices and export controls placed on rice by several leading producers, Brazil had incentives to export. So, Brazil will have difficulty repeating its level of export sales in 2008. However, Brazilian exporters continue to express enthusiasm in seeking non-traditional markets for exports.

In 2008, Brazil exported an atypical 350,000 tons of milled rice and 167,000 tons of broken rice. Brazil was able to export a large amount of milled rice because export controls limited the supply from traditional world rice exporters. Brazil has traditionally exported mainly broken rice but in the past few years it has increased the share of milled rice as a percentage of total exports.

Stocks: In 2008, there was approximately 600,000 tons of rice in public storage.

Production, Supply and Demand Data Statistics:

Rice, Milled Brazil	2007 2007/2008		2008 2008/2009		2009 2009/2010	
	Market Yr Begin: Apr 2008		Market Yr Begin April 2009		Market Yr Begin April 2010	
	Annual Data		Annual Data		Annual Data	
	Displayed	New Post	Displayed	New Post	Displayed	Jan

	Data			Data			Data
Area Harvested	2,874	2,874	2,874	2,900	2,900	2,900	2,900
Beginning Stocks	1,156	1,159	1,156	875	905	901	816
Milled Production	8,199	8,200	8,199	8,296	8,000	8,300	8,400
Rough Production	12,057	12,059	12,057	12,200	11,765	12,206	12,353
Milling Rate (.9999)	6,800	6,800	6,800	6,800	6,800	6,800	6,800
MY Imports	400	400	350	500	500	625	600
TY Imports	410	500	565	500	500	615	650
TY Imp. from U.S.	0	0	0	0	0	0	0
Total Supply	9,755	9,759	9,705	9,671	9,405	9,826	9,816
MY Exports	500	425	550	300	300	300	450
TY Exports	511	450	613	300	300	300	400
Total Consumption	8,380	8,429	8,254	8,710	8,710	8,710	8,710
Ending Stocks	875	905	901	661	395	816	656
Total Distribution	9,755	9,759	9,705	9,671	9,405	9,826	9,816
Yield (Rough)	4.	4.	4.1952	4.	4.	4.209	4.2597

Commodities:

Select

Policy:

According to the Brazilian Ministry of Agriculture, the federal government invested R\$1.5 billion to support commercialization of the harvest. At the beginning of the year, there were auctions to normalize the prices of corn and wheat.

The government reports that Brazil provided R\$423 million (US\$175 million) to support the corn industry, R\$522 million (US\$217 million) to the wheat industry, and no support to the rice industry in 2008. These amounts, while significant, are considered to be *de minimis* spending, as each is less than 10 percent of the value of that crop's production, and is therefore not counted against Brazil's WTO Aggregate Measurements of Support (AMS) commitment.

The amount of corn, rice and wheat supported by the government is provided in the tables below, as well as descriptions of the major government programs. These programs are utilized to support commodity prices and to assist in the flow of grain from the production areas to the consumption areas. While some of this grain is exported, these programs are not considered to be export subsidies since the recipient is not required to export the product. In addition, a waiver for developing countries in the WTO Agriculture Agreement allows the GOB to subsidize transportation.

Government Support for the Commercialization of Corn ('000 mt)

Program	2004	2005	2006	2007	2008
Acquisition (AGF)	99.6	637.5	2,223.7	273.3	149.5
PEP	315.3	790.9	3,087.9	1,183.3	599.2
PROP	0.0	94.4	2,258.0	0.0	531.4
PEPRO	0.0	0.0	100.0	3,753.2	0.0
Options (Sold)	767.2	0.0	0.0	0.0	1,290.5
Total	1,182.1	1,522.8	7,669.6	5,209.7	2,570.6
Production	42,128.4	35,006.7	42,514.9	51,369.9	58,863.7
Participation %	2.8%	4.3%	18.0%	10.1%	4.4%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Sales of Government-held Corn ('000 mt)

Program	2004	2005	2006	2007	2008
VEP	378.5	430.7	320.0	1,175.0	342.5

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Government Support for the Commercialization of Rice ('000 mt)

Program	2003/04	2004/05	2005/06	2006/07	2007/08
Acquisition (AGF)	0	571.4	307.7	62.0	0.0
PEP	0	0	459.8	157.5	0.0
PROP	0	327.6	238.9	0	0.0
Options (Sold)	0	350.0	0	857.7	0.0
Total	0	1,249.0	1,006.4	1,077.3	0.0
Production	12,960.4	13,355.2	11,971.7	11,315.9	12,059.9
Participation %	0%	9.4%	8.4%	9.5%	0.0

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Note: March/February crop year

Sales of Government-held Rice ('000 mt)

Program	2005	2006	2007	2008
VEP	0.0	174.4	113.6	102.5

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Government Support for the Commercialization of Wheat ('000 mt)

Program	2003/04	2004/05	2005/06	2006/07	2007/08
Acquisition (AGF)	0	269.7	31.9	0	236.1

PEP	0	433.8	1,184.2	0	425.5
PROP	0	0	153.4	0	0.0
Options (Sold)	517.7	650.0	0	0	1,103.2
Total	517.7	1,353.5	1,369.4	0	1,764.8
Production	6,073.5	5,845.9	4,873.1	2,233.7	4,081.9
Participation %	8.5%	23.2%	28.1%	0%	43.2%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Government Programs

Federal Government Acquisition (Aquisição do Governo Federal, AGF) allows the government to acquire agricultural products at the minimum price when the market price is below the minimum. It also allows the government to acquire products at market prices for use in the *agricultura familiar* program and to build strategic stocks.

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (Prêmio de Risco para Aquisição de Produto Agrícola Oriundo de Contrato Privado de Opção de Venda, PROP) is a subsidy program granted in the form of a public auction for the consumer to acquire, at a future date, a determined product directly from the producer and/or cooperative at a prefixed price, utilizing a private contract for the option to sell.

The Premium for Marketing of Products and Value for Marketing of Products (Prêmio e Valor de Escoamento de Produto, PEP & VEP) provide the minimum guaranteed price to producers and cooperatives by paying the difference between the minimum guaranteed price and the market price. The objective is to supplement the supply of commodities in areas of the country considered to be deficient in agricultural production, such as the Northeast of Brazil. The difference between the programs is that in PEP the products are taken from private stocks, whereas in VEP the products are taken from public stocks.

The Equalization Premium Paid to the Producer (Prêmio Equalizador Pago ao Produtor, PEPRO) is a premium granted to the farmer or cooperative which sells its products at public auction, where the government pays the difference between the Reference Value established by the government and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Option to Sell Contract (Contrato de Opção de Venda) is a futures option offered by the federal government through public auctions to producers and cooperatives. By purchasing a futures option, the holder has the right to deliver to the government by a specified date a certain quantity of the commodity, named in the contract, at a specific price. This program

signals to market agents the government expectations for futures prices and represents a price hedge to producers and cooperatives.

Commodities:

Select

Author Defined:

Fertilizers

Demand for fertilizers is influenced by three factors: the value of a barrel of petroleum, natural gas and its derivatives; the exchange rate; and the prices of principal commodities such as soy, corn and wheat. Based on these factors, Brazil is expected 22.4 million tons of fertilizer this year, roughly the same as last year in spite of this year's expansion of area planted. Brazil produces around 30 percent of its fertilizer needs and imports the rest.

The high price of fertilizer in 2008/2009 was a factor in the decrease in corn production. Acreage shifted from corn to soy as corn needs more fertilizer than soy. Also, corn yields suffered as those farmers who did plant reduced fertilizer usage.

Exchange Ratio of Fertilizers to Selected Crops Amount of Commodity needed to purchase 1 ton of fertilizer				
	Wheat 60 kg Sack	Rice 50 Kg Sack	Corn 60 Kg Sack	Soybeans 60 Kg Sack
2007	28.0	24.9	37.9	20.6
2008	37.8	32.9	51.0	26.3
Increase 2007-2008	35%	32%	35%	28%

Source: ANDA, Brazilian Fertilizer Association

Last fall, the government set a goal of becoming self-sufficient in phosphorus and nitrogen, derivatives of the two inputs most used in agricultural production. It established a group to identify the actions necessary to meet this goal such as identifying the capacity of Brazil's significant reserves of phosphorus and determining how to tap a large potassium reserve in the Amazon Region.

Commodities:

Select

Author Defined:

Infrastructure

Infrastructure, both in terms of storage facilities and transport, is inadequate in Brazil. Although Brazil has considerable potential to expand its agricultural production and exports, its infrastructure problems present serious impediments to growth. As Brazil is a large country infrastructure and its impact **vary** by region. The infrastructure in the South is well-developed while infrastructure development in the Center-West has not kept pace with rapid growth in agricultural production in the region.

Storage Facilities

According to government statistics, Brazil currently has approximately 125.7 million tons of storage. Between 2005 and 2006, capacity increased 14 percent, particularly in Mato Grosso where capacity jumped from 16 million tons to 22.7 million tons. However, in the past two years, capacity has increased only by one to two percent per year.

The lack of sufficient storage pressures farmers to sell at harvest, usually a time of low prices as the new crop enters the market. To help rectify this situation, the government has announced a plan to invest in storage facilities. The largest project is an R\$39 million silo with a capacity of 100,000 tons to be constructed in Uberlandia, a city considered the

Gateway to the Cerrados (savannah). According to the President of CONAB, additional storage capacity will permit the government to increase public stocks and in turn assure income to producers and regular prices to consumers.

In general, Brazil has far fewer farms with on-site storage than the United States, which has about 65 percent of its storage on farms. Instead, producers store grain at cooperatives or elevators. During a visit to the Center-West, farmers noted a preference for storing soybeans on farm while storing corn off farm since corn pests make storage more difficult. The cost of storage is greater in the Center-West than in the South and is greater for corn than soybeans

MATO GROSSO

Product	Cost of Storage (R\$/t)					
	1 month	2 months	3 months	4 months	5 month	6 months
Soy	23,28	26,98	30,11	33,23	36,35	39,48
Corn	28,16	31,85	35,54	39,23	42,92	46,61

RIO GRANDE DO SUL

Product	Cost of storage (R\$/t)					
	1 month	2 months	3 months	4 months	5 months	6 months
Soy	22,64	26,41	30,18	33,95	37,71	41,48
Corn	21,02	25,33	29,64	33,95	38,26	42,57

□□ Quotes from May 2008

Exchange rate: US\$ 1 = R\$ 2.411(3/3/09)